



Small Enterprise Assistance Funds

SEAF INDIA FUND GRANT QUARTERLY PROGRAM PERFORMANCE REPORT TO USAID/INDIA

Quarter ending December 30, 2004

Award # 386-G-00-03-00093-00

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UPDATE ON FUND RAISING FOR BOTH INDIA GROWTH FUND (DOMESTIC FUND) AND SEAF INDIA INTERNATIONAL FUND (INTERNATIONAL FUND)

SEAF and Kotak continued their successful fund raising efforts towards reaching a second closing by the third quarter of 2005. The total signed commitments to the India Growth Fund and to SEAF India International Fund stand at +50 million USD. In addition, there are soft commitments for +15 million USD and advance discussions with investors for another +23 million USD. SEAF's efforts towards tapping international as well as domestic investors and canalizing such investment towards the emerging corporate space are being compensated specially due to the increasing global awareness of India as an attractive investment destination and the publicity generated from the first closing in October 2004. The funds expect to reach, during a second closing, approximately 80+ million USD for its total corpus.

The table below provides a clearer picture as to the weight and source of funds.

Summary of Investors by Category									
Type of Investor	Firm Commitment		Soft Commitment		Serious Discussions		Total		Weight
	INR (crore)	USD	INR (crore)	USD	INR (crore)	USD	INR (crore)	USD	%
Domestic Institution	75.0	16.7	10.0	2.2	0.0	0.0	85.0	18.9	21.0%
Domestic Corporate/ Family Offices	98.5	21.9	10.0	2.2	25.0	5.6	133.5	29.7	33.0%
International Institution	40.5	9.0	0.0	0.0	0.0	0.0	40.5	9.0	10.0%
International Corporate/ Family Offices	13.5	3.0	51.3	11.4	81.0	18.0	145.8	32.4	36.0%
TOTAL	227.5	50.6	71.3	15.8	106.0	23.6	404.8	90.0	

SEAF INDIA INTERNATIONAL GROWTH FUND LEGAL STATUS.

SEAF incorporated SEAF India International Growth Fund (SIIGF) in Mauritius on October 25, 2004. SIIGF, held its first board meeting on November 09, 2004 appointing KPMG as its auditor and authorizing the opening of its bank account with HSBC. The second board meeting was held on January 18th, 2005 approving to enter into a custodian agreement with Stockholding Corporation of India and naming Kotak Mahindra Bank as its representative bank in India as per the Securities and Exchange Board of India (SEBI) regulations for foreign venture capital firms. Additionally, Mr. Holger Rothenbusch, DEG's representative, was nominated and appointed as board member of SIIGF. Mr. Rothenbusch along with 3 other SEAF nominees (SEAF Directors of Poland and Growth Fund and SEAF's Controller) and 2 local board members form the board of SIIGF. Finally, on January 18th SEBI requested SIIGF to present its local custodian and submit its registration fee (USD 10,000) in order to finalize its registrations process.

SEAF INDIA INVESTMENT ADVISORS PRIVATE LIMITED AND RECRUITMENT FOR FUND MANAGEMENT AND TECHNICAL ASSISTANCE GRANT

SEAF India Advisory Private Limited (IAC) is moving to recruit its first local employee. For this it has made an offer to Mrs. Mandakini Raina in order for her to fill the position of women entrepreneur officer. Mrs. Mandakini is an Indian National with a Master in Financial Management from the Rotterdam School of Management. She worked for SEAF's Business Development Unit in the Netherlands while completing her masters degree and her experience in researching and providing SEAF's portfolio companies in Central and Eastern Europe with commercial links and market information will be a valuable asset to India Growth Fund and qualifying companies sponsored by women entrepreneur. Currently, Mrs. Mandakini is employed in Delhi by an international bank in the wealth management area covering the northern

region, we expect this experience also to be a valuable asset towards generating a rich deal flow from women entrepreneurs initially from this region.

The hiring process will be expanded towards the second quarter of 2005 as new office space for SEAF India Investment Advisors and the Fund' Private Equity Area is finished (currently under renovations).

Additionally, to assist IAC in implementing the technical assistance component, particularly in being pro-active with women entrepreneurs and laying ground works for monitoring the development impact, Ms Stephanie Komsa will spend 3 to 6 months in India starting in March 2005. In addition, IAC has also identified a local consulting firm to help with the preparation of the women's conference. SEAF has also undertaken research in the industry/sectors that are identified in the pipeline to help position Kotak/SEAF with potential investees.

PIPELINE DEVELOPMENT

Even though the funds have, to a certain extent, increase the awareness of the attractiveness of the emerging corporate sector and raised considerable amount of funds (50M USD in first closing), supply is still well below the demand for financial resources. The quality of deal flow, mainly given by the segment being largely unattended by financial institutions and venture capital/ private equity funds, is exciting and promising. The team, Hector and Ramki, have to date screened 84 companies. These companies have been divided in different categories as per the status of due diligence and negotiations. The different layers of screening have been categorized and revised as follows:

- A Category.- for those companies with term sheets signed or under term sheet negotiations (probable time to disbursement 2-4 months from time of signing term sheet).
- B Category.- for companies under initial due diligence after initial review of business plan, and general due diligence of financial results and projected figures.
- C Category.- for companies which business plan or investment idea is being scrutinized and additional initial information is being required or have just presented their business proposal.
- D Category.- for companies which have been moved to a contact phase, either because of not complying with investment parameters, with the possibility of once achieving compliance to return, that have decided to stop the financing process or have received partial financing from other sources and will expect a second round of financing in the short term.
- R Category.- for companies which do not meet the funds investment criteria in terms of size, growth factors, corporate governance, values, investment restricted sectors, other.

Sectorial Breakdown

The table below provides a detail breakdown per sector and category of screened deals and current active plus inactive deals in India Growth Fund's pipeline.

Main sectors	A category	B category	C category	D category	R category	Active	Inactive	Total
Manufacturing/Pharmaceutical, Biotech and Other Chemicals	2	0	4	4	7	6	11	17
Manufacturing/ Metal and non metallic	1	0	6	4	5	7	9	16
Retail	1	1	0	0	0	2	0	2
Manufacturing/ Textiles	0	1	1	1	1	2	2	4
Services/ Health	0	0	2	0	0	2	0	2
Services/ Utilities/ Telecom	0	0	1	0	0	1	0	1
Services/Hotel	0	0	2	1	0	2	1	3
Services/ IT	0	0	7	1	15	7	16	23
Services/ Media	0	0	1	0	1	1	1	2
Manufacturing/ Foods	0	0	1	0	1	1	1	2
Manufacturing/Petrochemical	0	0	3	1	4	3	5	8
Services/Publishing	0	0	0	0	1	0	1	1
Services/other	0	0	0	0	1	0	1	1
Construction	0	0	0	1	1	0	2	2
Total	4	2	28	13	37	34	50	84

India Growth Fund has 4 deals in A category status. With two term sheets signed and two issued and under negotiations, we estimate the first two approvals within the next 4 months.

Fund Disbursement

SEAF will process fund disbursements of 10% of total commitments during first quarter 2005, to cover the organizational cost and provisions for investments as mentioned above.

SEAF continues to expense on staff, travel, and professional fees for undertaking the TA program as per the grant parameters.